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Managed Portfolio Tactical Change - v25

September 2016

The Portfolios are being rebalanced. As part of this process, there are changes to the fixed income and equity allocations. The change reflects a change in UK equity manager selection in the Managed models and fixed income manager selection in the Income models where we are also marginally increasing our equity weighting.

Change & Rationale - Managed Portfolios

Buy (in all the models except Model 9 & 10)

Vanguard UK Short Term Investment Grade Bond index

We believe that there is little value to be added by active managers in the UK investment grade bond space, and therefore elect to invest in passively managed strategies to get exposure to this asset class. Vanguard is a client-owned asset management institution with circa USD 3.6 trillion assets under management, with a particular focus on low-cost, passive products. This particular fund tracks the Barclays GBP Non-Government Float Adjusted Bond Index.

The addition of this tracker fund allows us to increase our investment-grade bond exposure across the models, but in particular in the lower risk ones where they form a large part of our strategic asset allocation. While we consider the asset class to be expensive at the moment, investment grade bonds certainly warrant a structural position in the portfolios: they offer good diversification benefits in relation to our other holdings, and provide us with an asset class that traditionally holds up well in times of market turbulence. Indeed, this fund allows us to introduce a small amount of duration into the models, while remaining significantly underweight duration overall (with government bond yields at historic lows across the developed world).

Buy (in all the models except Model 4)

FP Crux European Special Situations Fund

The London based investment team at Crux Asset Management is led by Richard Pease who has a long held bias towards investing in high quality businesses based in continental Europe, with a focus on good management teams, companies that generate consistent and meaningful cash flows, and high but steady earnings growth, while avoiding higher risk cyclicals. The portfolio is managed in an entirely benchmark agnostic fashion; emphasis is placed on absolute rather than relative risk.

Richard Pease previously ran this strategy at Henderson, but in April 2015 set up his own firm, Crux Asset Management, from which he now runs this fund.

Sell (in all the models except Model 4)

JP Morgan Europe Dynamic (ex UK) Fund

The Crux European Special Situations fund is one of our preferred providers in the European equity space, and we have more conviction in this strategy than in the JP Morgan Europe Dynamic fund.

Sell (in all models; not held in Model 9 & 10)

Henderson Preference & Bond Fund

There are a number 'strategic' style bond funds in the models currently, and we are looking to consolidate these into a small number of preferred managers.

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Income Portfolio Tactical Change - v6

September 2016

Change & Rationale - Income Portfolios

Buy (in all models)

L&G Global Real Estate Dividend Index Fund

The L&G Global Real Estate Dividend Fund invests in Real Estate Investment Trsusts (REITs) listed globally. While their day-to-day volatility will be akin to the equity market (these are equity securities that own property) over the long run we anticipate that the fund's performance will be comparable to that of directly invested property, while offering more diversification, better liquidity and more transparent pricing. L&G are a well-established insurance and investment management house, with assets under management of circa USD 1.1 trillion. The team that run this fund place an emphasis on tracking the target index while minimising turnover and limiting transaction costs when trading. This particular fund tracks the FTSE EPRA NAREIT Developed Dividend Plus Index.

Property forms an important part of our strategic asset allocation for the Income models, with the asset class providing a healthy, steady yield and good return characteristics, as well as a critical diversification benefit. At this stage we have allocated 4% to the models, with the position sized modestly to reflect our view on expensive valuations in the sector.

AXA US Short Duration HY Fund

The AXA US High Yield fixed income team operates out of Greenwich, Connecticut and is managed more like an independent asset management boutique despite being part of a large financial services company. There is an experienced team in place and the lead portfolio manager, Carl Whitbeck, manages one of the best performing funds in the sector. The objective of the fund is to achieve strong, long-term total returns and they believe this will come predominately from compounding income over time. They employ an active approach based on rigorous, bottom-up credit research, and select bonds which they feel the market is discounting too heavily.

From a tactical point of view, we believe that the best risk-adjusted returns in corporate credit, over a five-year period, are to be found in US high yield and particularly in the short-end of the curve, hence we believe that this fund will be a valuable addition to the Models from an asset allocation point of view. It also delivers an attractive yield. In light of this, we have also decided to trim positions in the two core duration High Yield strategies (Kames and Threadneedle) in the Higher Income model, and the Threadneedle fund in the Income model. This ensures that our overall allocation to High Yield is not excessive, while at the same tilting the model towards more attractive parts of the universe.

Sell (in all models)

Henderson Preference & Bond Fund

There are a number 'strategic' style bond funds in the models currently, and we are looking to consolidate these into a small number of preferred managers.

Switch (in Higher Income)

We have initiated a position in the Evenlode Income fund (as we have previously done in the other Income models), while reducing our position in the Threadneedle UK Equity Income fund.

Evenlode is a direct investment franchise within Wise Investments, which is predominantly a wealth management business. The parent company was established by Tony Yarrow in 1992 to manage investments for private individuals. The Evenlode franchise was launched in October 2009 by the fund's co-managers; Hugh Yarrow and Ben Peters. The portfolio managers implement an all-cap, quality orientated investment approach. They combine a disciplined and repeatable process with detailed fundamental research and a long investment horizon, which results in a low-turnover and relatively concentrated portfolio of around 30 high quality businesses that offer attractive cash based valuations. The managers' strong preference is for asset-light companies with low reinvestment requirements, enabling the businesses to compound returns at a higher rate than the market average. Holdings typically exhibit a high and sustainable return on invested capital and strong free cash flow generation. Evenlode remains one of our highest conviction managers in the UK equity space, and offers an attractive income.